

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57988

CITY OF SEATTLE

King County, Washington

January 1, 1995 Through December 31, 1995

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CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 24, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Seattle is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

May 24, 1996

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the general-purpose financial statements of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 24, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

May 24, 1996

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Should Comply With Requirements For Alternative Public Works Contracting Procedures

The city is authorized under Chapter 39.10 RCW to use supplemental alternative public works contracting procedures. One of these procedures is the "design-build" alternative.

The city and the Seattle Symphony Orchestra decided that it would be desirable to cooperate in the development of a public concert hall and in March 1995 entered into a memorandum of understanding, which reflected the city's intention to contract with the symphony as the design-builder.

After a public hearing in July 1995, the city council, by resolution, made a formal determination to use the design-build procedure. In August 1995, the city published a request for letters of interest from qualified design-builders; however, this request included a provision reflecting the city's intent to contract with the Symphony provided that no other organization was willing to contribute \$68 million toward the estimated project cost of \$108.8 million. This request established an August 25 deadline for response. No organization other than the Symphony made such a commitment and in late October, the city executed three agreements with the Symphony: a master agreement, a design agreement, and a construction agreement. In the meantime, the Symphony published a request for qualifications for general contracting services prior to August 25.

By taking these actions, the city violated RCW 39.10.050, which states in part:

Contracts for design-build services shall be awarded through a competitive process utilizing public solicitation of proposals (Emphasis ours.)

Moreover, the city's published request for proposals did not include, or did not sufficiently include, the following provisions required by RCW 39.10.050:

A description of the qualifications, if any, to be required of the proposer.

The notice only included a provision that the qualifications would be based on the design-builder's experience and ability to pay all project costs beyond the city's maximum expenditures.

A description of the process the public body will use to evaluate qualifications and proposals.

. . . minority and women enterprise (MWBE) total project goals.

The notice included a provision that the designer-builder comply with city MWBE requirements related to the city's portion of project costs; but it did not quantify these requirements.

The amount to be paid to finalists . . . who are not awarded a design-build contract.

RCW 39.10.050 also states:

The public body shall establish a committee to evaluate the proposals based on the factors, weighing, and process identified in the request for proposals. Based on its evaluation, the public body shall select not fewer than three . . . finalists to submit best and final proposals.

The city did not establish a committee to evaluate proposals, nor did it select three finalists to submit best and final proposals.

As previously discussed, the city executed a construction contract with the symphony. This action was in violation of RCW 39.06.010, which states:

No agency of the state or any of its political subdivisions may execute a contract with any contractor who is not registered or licensed as may be required by the laws of this state.

The Seattle Symphony Orchestra is not a registered contractor. RCW 18.27.020 states:

(1) Every contractor shall register with the department (of Labor and Industries). (2) It is a misdemeanor for any contractor to: advertise, offer to do work, submit a bid, or perform any work as a contractor without being registered as required by this chapter

City officials believed that the symphony was the only organization they could realistically expect to provide the additional \$68 million needed to fund the concert hall project.

By not following proper contracting procedures, the city effectively excluded others from participating in the concert hall project.

We recommend city officials comply with all applicable requirements when electing to use alternative public works contracting procedures.

We further recommend city officials enter into construction contracts only with licensed contractors.

Auditee's Response

City officials responded to preliminary drafts of our Findings 1 and 2 in a December 9, 1996, letter from Mark H. Sidran, Seattle City Attorney.

Excerpts from that letter have been included to accompany those findings.

The City's contract for this project was prepared with great care so as to serve important public policy goals and stay within applicable legal requirements. Although I recognize that neither this contract nor the process that led up to it were "typical," the City has not violated either the spirit or the letter of any statute or regulation. As discussed in detail below, I believe this project has been done in

conformance with all applicable laws and I urge you to reconsider the tentative conclusions of your draft report.

Contracting with the Symphony

*It is important to grasp at the outset of any analysis of this project that the Seattle Symphony offered to the City of Seattle unprecedented and financially advantageous terms for the construction of a concert hall and related facilities. The Symphony was prepared to design and build this project on City land, for City ownership, at a location desired by the City. The Symphony was willing to build this facility for the City at about one-third of its projected cost, with the Symphony fully responsible for raising the remaining two-thirds and for any budget overruns. It is probably needless to point out that such an arrangement is orders of magnitude more favorable to the City than the normal market terms under which public agencies typically contract for public facilities. Obviously, state law **should** permit the City to accept such a uniquely generous arrangement and, fortunately, it does.*

Washington State courts have adopted the principle "that a requirement that municipal contracts be awarded on bids should not be strained beyond the reasons that support it . . . [S]uch a requirement is inapplicable where there is only one available company capable of supplying the subject matter of the contract." 10 McQuillan, Municipal Corporations (3rd ed. 1990), 400, §29.34. When, as here, the contract required the designer-builder to supply most of the funds for the project, the Symphony was essentially in a monopoly position. Although the City published formal notice of its willingness to consider other competitive proposals for the concert hall, that process served to confirm that the Symphony was, from the start, uniquely-positioned to perform this contract; only the Symphony could raise millions of dollars of private money for this project and build it on the terms it had offered the City. Under such circumstances, strict compliance with the competitive process of RCW 39.10 was neither possible nor required. To ignore or hide the Symphony's unique competitive position from potential design/build firms operating under typical market forces would have been unfair and misleading to them.

In spite of the fact that the City likely could have entered into this unique contract without following any formal competitive process at all, it took steps to meet all the meaningful terms of RCW Ch. 39.10 and to ensure its purposes were advanced. Washington courts have consistently held that statutory prescriptions, particularly procedural and notice requirements, may be deemed satisfied where there has been substantial compliance and where strict compliance would be absurd, useless, or immaterial to the legislature's intent. See, e.g., Murphy v. Campbell Inv. Co., 79 Wn.2d 417, 486 P.2d 1080 (1971).

Before signing its design/build contract with the Symphony, the City formally determined that this project met the statutory design/build criteria in strict observance of RCW Ch. 39.10 and advertised its desire for competitive proposals in a manner materially consistent with that statute. The implication in your draft report is that the City should have gone further to establish an evaluation committee and evaluation process and select no fewer than three finalists. This, however, overlooks the circumstances of the solicitation. It would have served no conceivable statutory purpose and would have caused unnecessary expense and delay. Indeed, to have insisted on such strict compliance under these facts would have been to render the ultimate contract impossible, since no fair or accurate description of the project would ever have been likely to produce two competitors to the Symphony's offer. (I would ask you to run through hypothetical alternatives to handling this contract. I would argue that they all would do a poorer job of meeting the law and the public policy goals.)

Beyond using a process that obtained the lowest price for the public and gave theoretical competitors fair notice, the City substantially complied with a statute it arguably could have determined was inapplicable. Further, the City insisted in its contract with the Symphony that it, in turn, award the construction element of the project by an open competitive process. As it was carried out by the City,

the process of entering into this contract served the primary statutory goal of getting the best price for the public and the secondary goal of providing contractors with an open and fair opportunity.

Although we believe the city's contracting process was fully lawful in this instance, we do agree with your suggestion that the city comply with RCW Ch. 39.10 on future design/build contracts and expect that in the vast majority of such projects strict compliance will be both desirable and practicable.

Contractor Licensing Requirements

*The City's agreement with the Symphony does not itself constitute a "construction contract" between the City and a contractor that must be signed only with a registered or licensed contractor. This agreement is for the provision of design/build services as contemplated in RCW Ch. 39.10. Such services are not traditionally provided in the United States by any single type of organization. Design/build services are frequently provided by joint-ventures combining the financial and organizational talents of contractors and design professionals to produce a unified product, but that is not the exclusive organizational model used for such undertakings. Other approaches have been used in differing contexts, including subcontracting arrangements under which either a design professional or contractor assumes "lead" responsibility for a design/build project. Since the statutory term "contractor" traditionally refers only to one element of "design/build" services, it is understandable that RCW 39.10.050 does not refer to the entity selected to provide design/build services as a "contractor" but, as a "firm." (See, in particular, RCW 39.20.050(4)(d) and RCW 39.10.050(6).) And since RCW Ch. 39.10 does not restrict a public body's choice of the type of entity with which contracts for this type of specialized service, and (in fact, expressly waives other inconsistent statutes in RCW 39.06.090) this contract does not violate RCW 18.25.020. In the end, it is worth noting that, of course, a licensed contractor **is** performing the construction work on this project.*

2. The City Should Comply With City and State Public Works Prevailing Wage Requirements

As discussed in Finding 1, in October 1995 the city entered into three agreements with the design-builder, Seattle Symphony Orchestra, for construction of a concert hall, parking garage, and a secondary performance hall. The symphony in turn established B H Music Center, a nonprofit corporation with five symphony directors on its board, to act as its agent in the design and construction process. In April 1996, B H Music Center, acting on behalf of the symphony, entered into a public works agreement in the amount of \$70.5 million with a construction contractor for this project.

This project was not administered in accordance with the following state and city public works prevailing wage requirements.

RCW 39.12.030 states in part:

The specifications for every contract for the construction, reconstruction, maintenance or repair of any public work to which the . . . municipality . . . is a party, shall contain a provision stating the hourly minimum rate of wage, not less than the prevailing rate of wage, which may be paid to laborers, workers, or mechanics in each trade or occupation required for such public work employed in the performance of the contract by either the contractor, subcontractor

The prevailing wage rates were not included in the construction agreement between the City of Seattle and the symphony or between B H Music and the public works contractor. These

agreements direct the contractor to obtain the rates from the Department of Labor and Industries.

WAC 296-127-011 states that the prevailing wages applicable to a construction contract are those in effect on the bid opening date unless the contract was awarded six months after the bids were due, in which case the applicable rates are those in effect on the date the contract was awarded. In this case, the applicable prevailing wages would be those in effect on either March 3, 1995, or August 31, 1995, depending on when the contract was awarded.

The symphony's request for proposals had a submission deadline of September 13, 1995. In November 1995, the symphony selected a contractor from three finalists and executed a preconstruction agreement with them. In April 1996, B H Music Center executed a public works contract with this contractor. The contractor used the Washington State Prevailing Wage Rates for Public Works Contracts listing in effect on March 3, 1995, but should have used the listing in effect on August 31, 1995.

Article 11.4.5 of the city's construction agreement with the symphony provides that certified payrolls be remitted to the City of Seattle within 72 hours after the expiration of each pay period. The general contractor's certified payrolls were not reviewed by the city, the symphony, or B H Music Center.

In May 1996, as part of a departmental reorganization, city management eliminated the certified payroll monitoring function.

These conditions increase the likelihood that contractor or subcontractor employees will be paid less than the required wage rate.

We recommend city officials ensure appropriate prevailing wage rates are included in construction agreements or the related bid specifications.

We further recommend city officials ensure weekly certified payrolls are reviewed by appropriate city personnel in a timely manner.

Auditee's Response

Prevailing Wages

Your draft report also cites RCW 39.12.030 as requiring that the:

"specifications for every contract for the construction, reconstruction, maintenance or repair of any public work to which the . . . municipality . . . is a party . . . contain a provision stating the hourly minimum rate of wage, not less than the prevailing rate of wage, which may be paid to laborers, workers, or mechanics in each trade or occupation required for such public work employed in the performance of the contract by either the contractor, subcontractor"

In contrast to the "normal" public works contracting process (in which construction contracts are let very shortly after bid opening), the contracting process authorized by RCW Ch. 39.10 anticipates that the contract may not be negotiated and executed for some time after the selection of the successful design/build firm. This makes it impossible to be absolutely certain what wage rates will be applicable to the project, particularly where the prevailing wage rates are subject to modification by the Department of Labor & Industries twice a year. RCW 39.12.030's requirements are effectively met by the provisions contract between the City and Symphony which: expressly make construction of the concert hall subject to the wage requirements of state law (RCW Chs. 39.12, 49.28 and 49.46); make

the Symphony responsible for the compliance by the Symphony's contractor and subcontractors with all wage requirements; obligate the Symphony to prohibit its contractor and subcontractors from paying any worker less than the applicable prevailing hourly wage and fringe benefits; and for the purpose of implementing WAC 296-127-011, make the effective date for determining the applicable wage rates the date that the construction contract was executed. It is doubtful that further specificity was possible, given the knowledge of the parties at the time, or that further specificity is required by RCW 39.12.030, given the waiver in RCW 39.10.090. Finally, we are advised that the wage rates that have been paid by the Symphony's contractor and subcontractors on the concert hall are well in excess of the prevailing rates determined by the Department of Labor & Industries.

Your draft report correctly notes that in May 1996, as part of a City departmental reorganization, the City discontinued its former practice of monitoring certified payrolls. Although your draft report indicates this action increases the likelihood that contractor or subcontractor employees will be paid less than the required wage rate, nothing in your report cites any legal requirement that Seattle continue to perform this activity. It is our understanding that prior to May 1996, Seattle was the only municipality in the State of Washington that was performing a separate wage payment monitoring function with respect to public works contracts, and that all municipalities relied upon the State Department of Labor & Industries for compliance monitoring purposes, which is vested with the authority and responsibility for making determinations that laborers, workers, and mechanics have not been paid as required by law.

Thank you again for letting us look at your draft report. Although I obviously disagree with a number of your tentative conclusions, I am sympathetic to the fact that you are trying to get a handle on an extraordinary contract in conjunction with a largely unexplored statute. (Indeed, we were doing the same thing as we prepared this agreement.) I hope that upon further reflection you will conclude that in this project the City sought and followed a legitimate route to a desirable end.

Auditor's Conclusions

We wish to thank Mr. Sidran for his thoughtful response to these findings. However, after consultation with our representative of the Washington State Attorney General's Office, we reaffirm our position on these issues.

3. The City Should Reconcile Cash And Investments To The General Ledger Balances In A Timely Manner

The city's year-end reconciliation of cash and pooled investments includes an item captioned "Accrued receivable and reconciling items" in the amount of (\$121,074). This amount is actually an aggregate of unidentified differences, some of which may date from 1992. Our audit report for 1993 contained a finding on this issue and city staff have been able to identify and reduce portions of the original imbalance. However, our follow-up in June 1996 revealed that no further progress had been made and it seems unlikely that the remaining differences will be identified.

Because unidentified differences were allowed to go unresolved from year to year, the year-end reconciliation of cash and pooled investments became ever more difficult.

When prompt and accurate reconciliations are not made, city officials have no assurance that errors or irregularities will be detected in a timely manner.

We recommend the city finance department maintain a current and complete reconciliation of cash and pooled investments and not allow differences to go unresolved.

Auditee's Response

City officials responded to a preliminary draft of Finding 3 in a December 17, 1996, letter from Dwight Dively, Director, Executive Services Department.

Excerpts from that letter have been included here.

The Finance department did extensive research to identify the reconciling difference of (\$121,074) between cash and pooled investments and cash in bank. A substantial portion of the difference is now identified. The research will be completed and correcting entries will be made before December 30, 1996.

In May 1996, a new bank reconciliation system was installed. This new system electronically handles the type of transactions that used to cause timing differences between the bank and the general ledger. The new bank reconciliation system has eliminated about 90% of said items that cause timing differences. The new process is a lot faster than the old system and allows the City to reconcile cash and pooled investments in a more timely manner.

Auditor's Concluding Remarks

We wish to thank Mr. Dively for his response to this finding. We will review these adjustments and the reconciliation system during our next audit of the City of Seattle.

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the accompanying general-purpose financial statements of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Seattle, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

The Pension Fund Information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 1996, on our consideration of the city's internal control structure and a report dated May 24, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

May 24, 1996

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the general-purpose financial statements of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 24, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Seattle taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

May 24, 1996

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the general-purpose financial statements of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 24, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 30, 1996

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the general-purpose financial statements of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 24, 1996.

We also have audited the city's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to approvals, environmental reviews, program income, subrecipient agreements, vouchers, right-of-way, extensions, sampling and testing, timely assistance, outreach, equitable treatment, payment to energy suppliers, hearings, performance of technical assistance, monitoring and evaluations, voluntary contributions, evidence of compliance with state and local licensing facility standards, all as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments* and special tests and provisions relating to HUD Home Program grant agreement
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Seattle complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 30, 1996

CITY OF SEATTLE
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the general-purpose financial statements of the City of Seattle, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated May 24, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 30, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated May 24, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Accounts payable and purchasing
 - Payroll
 - Inventory control
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure category was determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Receiving
 - Property, plant, and equipment

During the fiscal year ended December 31, 1995, the city expended 72 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 30, 1996

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Status Of Prior Findings

The finding contained in the prior audit report were resolved as follows:

Federal

1. Internal Controls Over Preparation Of The Schedule Of Federal Financial Assistance Should Be Strengthened

Resolution: Our current audit disclosed significant improvement in the schedule, but some deficiencies remain. We have discussed these matters with city staff and will follow up on them in our next audit.

2. The City Should Ensure That All Subrecipients Are Audited In Accordance With Requirements

Resolution: The Department of Housing and Human Services has included recipients of loans in its subrecipient audit schedule.

Nonfederal

1. The City Should Comply With Competitive Bidding Requirements For Public Work Projects

Resolution: This was a unique situation that is unlikely to recur. However, we have noted another issue in regard to public work contracting. See Finding 1.

2. The City Should Strengthen Controls Over Traffic Citations

Resolution: The police department and the Municipal Court, together, have made significant improvements in the control and tracking of citations. We consider the finding resolved and will review these controls in a future audit.